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SUBJECT: HEWLETT PACKARD WINS APPROVAL OF FIRST "EQUITY
EQUIVALENT" PROGRAM

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¶1. (U) Summary: Hewlett Packard has won SAG approval to implement the first "equity equivalent" plan under South Africa's black economic empowerment (BEE) codes. Under the plan, HP will accrue BEE "points" by promoting information technology skills in the small and medium enterprise sectors, instead of by selling equity to black South Africans. The BEE codes have an "equity equivalent" exception for multinationals unable to comply with strict BEE requirements.
End Summary

Hewlett Packard Gets the Nod

¶2. (SBU) Hewlett Packard has become the first multinational company to win SAG approval to go ahead with an "equity equivalent" plan under the country's black economic empowerment (BEE) codes, according to Benni North, an HP official in Johannesburg. He recently told Deputy Econ Counselor that HP will establish an HP Business Institute (HPBI) to develop information technology skills in South Africa's small- and medium-enterprise sectors. HPBI plans to train 1,800 students and apprentices over the next 6-7 years. The first tranche of learners will enter the program in February 2008. HP announced the HPBI plan on August 27.

¶3. (SBU) North said that it took "quite a long time -- at least a year" for the HPBI proposal to win approval from the Department of Trade and Industry (DTI). Officials in DTI's BEE division were "very reasonable," he said, but they lacked knowledge of business models and eventually had to call on expertise from other DTI departments. Turnover at DTI also delayed approval. North stressed that "HP has a good working relationship with DTI" and he predicted that future "equity equivalent" proposals would win speedier approval as DTI acquired more experience. He noted, however, that some DTI officials still dislike the concept of "equity equivalent" schemes, even though they know they must comply with the law.

Note

¶4. (U) Under the BEE Codes of Good Practice, companies are awarded BEE "points" according to their performance on seven separate dimensions of black empowerment, including black ownership of equity (reftel). High-scoring companies then receive an advantage on bids for SAG contracts. However, the

Codes make an exception for multinational corporations, which can earn equity points through the use of customized BEE programs not actually involving black equity ownership. These "equity equivalent" schemes must have prior approval from DTI.

15. (SBU) The concession to multinationals was granted after foreign business lobbies (including the American Chamber of Commerce) argued that many multinationals have a strict global policy of owning 100 percent of their subsidiaries' equity, making it impossible for them to comply with the BEE equity mandates. Although "equity equivalent" schemes were controversial when they were first proposed by the business community, they came to be seen by the SAG as a way to accommodate foreign investors without undermining racial transformation. Multinationals are not exempt from other BEE requirements.
Teitelbaum